

CASSOPOLIS AREA UTILITIES AUTHORITY

FINANCIAL REPORT

December 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------|--|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name CASSOPOLIS AREA SEWER AUTHORITY | County CASS |
| Fiscal Year End DECEMBER 31, 2006 | Opinion Date MAY 4, 2007 | Date Audit Report Submitted to State MAY 23, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

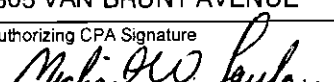
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|--|-------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) SCHAFFER & LAYHER, PLLC | | Telephone Number 269-983-0131 | | |
| Street Address 805 VAN BRUNT AVENUE | | City ST. JOSEPH | State MI | Zip 49085 |
| Authorizing CPA Signature  | | Printed Name MICHAEL W. LAYHER | | License Number 21500 |

AUTHORITY BOARD MEMBERS

| <u>Office</u> | <u>Official</u> | <u>Representing</u> |
|----------------------|------------------------|----------------------------|
| Chairperson | Ronald Francis | Penn Township |
| Vice Chairperson | Gene Decker | LaGrange Township |
| Board Member | Larry Balok | Penn Township |
| Board Member | Mike Seedorf | Calvin Township |
| Board Member | Betty Argersinger | Jefferson Township |
| Board Member | Ronald Bass | Village of Cassopolis |
| Board Member | Village Manager | Village of Cassopolis |

Board Secretary/Treasurer
Cheri Martine

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Cassopolis Area Utilities Authority

We have audited the accompanying financial statements of the business-type activities of the Cassopolis Area Utilities Authority as of December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cassopolis Area Utilities Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Cassopolis Area Utilities Authority as of December 31, 2006 and the changes in financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 2 through 4 are not a required part of the basic financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher
May 4, 2007

The following management's discussion and analysis (MD&A) of the Cassopolis Area Utilities Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of cash flows, and other information contained in this report.

About the Authority

Cassopolis Area Utilities Authority (CAUA or the "Authority"), through an intergovernmental agreement between the Village of Cassopolis and four townships located in Cass County: Calvin, Jefferson, LaGrange, and Penn townships, operates the sewage transportation system for these communities.

Financial Highlights

- The Authority's net assets at December 31, 2006 were \$4,662,108, of which \$3,815,992 was invested in capital assets. At December 31, 2005, net assets were \$4,681,964.
- Operating revenues increased by 13.0 percent from \$425,436 in 2005 to \$480,722 in 2006, due to increased permit and tap-in charges.
- Operating expenses decreased by 33.5 percent from \$744,273 in 2005 to \$494,965 in 2006, due to a decrease in purchased services, primarily funds owed to the Village of Cassopolis.

Overview of the Financial Statements

This report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total net assets decreased by \$19,856 from 2005 to 2006 with net assets of \$4,662,108 at December 31, 2006 and \$4,681,964 at December 31, 2005.

| | <u>2006</u> | <u>2005</u> |
|----------------------------|---------------------|---------------------|
| Current Assets | \$ 886,511 | \$ 834,961 |
| Capital Assets | 3,815,992 | 3,905,004 |
| Other Assets | 1,100,000 | 1,375,000 |
| Total Assets | <u>\$ 5,802,503</u> | <u>\$ 6,114,965</u> |
| Total Liabilities | <u>\$ 1,140,395</u> | <u>\$ 1,433,001</u> |
| Net Assets | | |
| Invested in capital assets | \$ 3,815,992 | \$ 3,905,004 |
| Unrestricted | 846,116 | 776,960 |
| Total Net Assets | <u>\$ 4,662,108</u> | <u>\$ 4,681,964</u> |

Financial Analysis of the Authority as a Whole, Concluded

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$(19,856) and \$(250,568) for the years ended December 31, 2006 and 2005, respectively.

| | <u>2006</u> | <u>2005</u> |
|---|--------------------|---------------------|
| Operating Revenues | \$ 480,722 | \$ 425,436 |
| Operating Expenses (including depreciation) | 494,965 | 744,273 |
| Operating Loss | \$ (14,243) | \$ (318,837) |
| Non-operating revenues (expenses) | (5,613) | 68,269 |
| Change in net assets | <u>\$ (19,856)</u> | <u>\$ (250,568)</u> |

Analysis of Financial Position

The current year net assets decreased \$19,856. Several significant factors affecting net assets during the year are discussed below:

- 1) Operating expenses exceeded operating revenues by \$14,243, with an additional net \$5,613 of non-operating expenses incurred.
- 2) The Authority's investment in capital assets had a decrease of \$89,012 due to \$67,434 of current year acquisitions and \$156,446 of current year depreciation.

Results of Operations

The Authority's operating loss changed by \$304,594 from last year as a result of the following:

- 1) Operating revenues increased \$55,286 or 13.0% as a result of increased permit and tap-in charges.
- 2) Operating expenses decreased \$249,308 or 33.5% as the Authority's purchased service expense decreased significantly. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Nonoperating interest income has significantly contributed to the Authority's overall revenue base. This is due to the large amount of dollars available and invested from prior years. As operating costs continue to rise, these resources will be depleted and could negatively impact future non-operating interest income.

Results of Operations, Concluded

- 4) One of the largest expenses the Authority incurs is the purchased services from the Village of Cassopolis for operations and maintenance of the system. The Authority pays a monthly amount based on the collections from each municipality throughout the year, then a reconciliation is performed at the Village level to determine if enough revenue has been received to cover their expenses. At December 31, 2006, this amount was approximately an additional \$21,543 of expense to the Authority.

Sewer Rates

The Authority oversees the sewer operations for users on Diamond, Donnell, and Paradise Lakes, as well as the Village of Vandalia. The monthly rates being charged each user depends on their location, and the rate is then broken down for specific uses and restrictions. The following table breaks down those rates and uses:

Breakdown of monthly rate for use/designation

| User | Monthly Rate | Village of Cassopolis for operations and maintenance | Authority operations | Designated Capital Replacement | Calvin Township Debt Retirement | Penn Township Debt Retirement | Designated for Debt Retirement |
|---------------------|--------------|--|-------------------------|--------------------------------------|--|--|--------------------------------------|
| Diamond Lake | \$ 20.00 | \$ 15.00 | \$ 3.00 | \$ - | \$ - | \$ - | \$ 2.00 |
| Donnell Lake | \$ 23.00 | \$ 15.00 | \$ 3.00 | \$ - | \$ - | \$ 5.00 | \$ - |
| Village of Vandalia | \$ 22.00 | \$ 15.00 | \$ 0.42 | \$ 2.58 | \$ - | \$ 4.00 | \$ - |
| Paradise Lake | \$ 21.00 | \$ 15.00 | \$ 0.42 | \$ 2.58 | \$ 3.00 | \$ - | \$ - |

Budgetary Highlights

During the year, the Authority had no budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements are a significant element in the Authority's financial plan. Ongoing funding for capital improvements will be generated from operating revenues. The monies accumulated are being earmarked for capital projects.

Economic Factors and Next Year's Forecast

The funding composition for the operation and maintenance for the Authority consists of rates established by the governmental units and ultimately paid by the customers using the sewer system. The Authority then keeps a portion of the rates and remits the remainder to the Village of Cassopolis for purchased services and other governmental entities for debt repayments.

Economic Factors and Next Year's Forecast, Concluded

The Authority's plan for budget monitoring includes reviewing the actual expenses of the Village for operations on a monthly basis, to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. Rate increases proposed by the Authority were approved by the respective member townships in 2006. No increases have been proposed to date for 2007.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 117 South Broadway, Suite 100, Cassopolis, MI 49031.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF NET ASSETS
DECEMBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9,190 | \$ 16,300 |
| Accounts receivable | 36,911 | 36,742 |
| Investments | 830,210 | 770,019 |
| Prepaid rent | 10,200 | 11,900 |
| Total Current Assets | <u>\$ 886,511</u> | <u>\$ 834,961</u> |
| Capital Assets | <u>\$ 3,815,992</u> | <u>\$ 3,905,004</u> |
| Restricted Assets | | |
| Contract receivable | <u>\$ 1,100,000</u> | <u>\$ 1,375,000</u> |
| Total Assets | <u><u>\$ 5,802,503</u></u> | <u><u>\$ 6,114,965</u></u> |
| Liabilities | | |
| Accounts payable | \$ 40,395 | \$ 58,001 |
| Contract payable | 1,100,000 | 1,375,000 |
| Total Liabilities | <u>\$ 1,140,395</u> | <u>\$ 1,433,001</u> |
| Commitments and contingencies | | |
| Net Assets | | |
| Invested in capital assets | \$ 3,815,992 | \$ 3,905,004 |
| Unrestricted: | | |
| Undesignated | 606,004 | 572,647 |
| Designated for Debt Retirement (Diamond Lake) | 174,758 | 150,814 |
| Designated for Capital Replacements (Village of Vandalia/Paradise Lake) | 65,354 | 53,499 |
| Total Net Assets | <u>\$ 4,662,108</u> | <u>\$ 4,681,964</u> |
| Total Liabilities and Net Assets | <u><u>\$ 5,802,503</u></u> | <u><u>\$ 6,114,965</u></u> |

The accompanying notes are an integral part of these financial statements.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Operating Revenues | | |
| User fees | | |
| Fees for Village of Cassopolis (operations and maintenance) | \$ 266,927 | \$ - |
| Fees for capital replacement (Diamond and Donnell Lakes) | 37,119 | - |
| Fees for capital replacement (Village of Vandalia and Paradise Lake) | 11,855 | - |
| Fees for debt retirement designation (Diamond Lake) | 23,944 | - |
| Fees for Penn Township debt retirement (Village of Vandalia/Donnell Lake) | 28,797 | - |
| Fees for Calvin Township debt retirement (Paradise Lake) | 3,645 | - |
| Subtotal user fees | \$ 372,287 | \$ 381,037 |
| Permits and tap-in charges | 106,875 | 41,340 |
| Other income | 1,560 | 3,059 |
| Total Operating Revenues | <u>\$ 480,722</u> | <u>\$ 425,436</u> |
| Operating Expenses | | |
| Board per diems | \$ 5,695 | \$ 4,885 |
| Office supplies | 1,235 | 1,006 |
| Maintenance | 42,422 | 82,789 |
| Attorney fees | 640 | 3,225 |
| Audit fees | 3,880 | 3,705 |
| Insurance | 6,369 | 6,601 |
| Rent | 1,700 | 1,700 |
| Purchased services from Village of Cassopolis (operation and maintenance) | 274,108 | 480,416 |
| Depreciation expense | 156,446 | 158,223 |
| Other | 2,470 | 1,723 |
| Total Operating Expenses | <u>\$ 494,965</u> | <u>\$ 744,273</u> |
| Operating Income (Loss) | <u>\$ (14,243)</u> | <u>\$ (318,837)</u> |
| Non-Operating Revenues (Expenses) | | |
| Investment income | \$ 30,383 | \$ 70,072 |
| Debt payments on behalf of Townships for Diamond Lake Sewer | (3,081) | (1,803) |
| Debt payments on behalf of Calvin Township for Paradise Lake Sewer | (6,501) | - |
| Payments to Penn Township for Debt Retirement (Donnell Lake/Village of Vandalia) | (26,414) | - |
| Total Non-Operating Revenues (Expenses) | <u>\$ (5,613)</u> | <u>\$ 68,269</u> |
| Change in net assets | \$ (19,856) | \$ (250,568) |
| Net assets, beginning of year | 4,681,964 | 4,932,532 |
| Net assets, end of year | <u>\$ 4,662,108</u> | <u>\$ 4,681,964</u> |

The accompanying notes are an integral part of these financial statements.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENT OF CASH FLOWS
DECEMBER 31, 2006 AND 2005**

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 480,553 | \$ 388,694 |
| Cash payments to suppliers for goods and services | (354,425) | (526,349) |
| Net cash provided by (used in) operating activities | \$ 126,128 | \$ (137,655) |
| Cash flows from capital and related financing activities | | |
| Payments for acquisition or construction of capital assets | \$ (67,434) | \$ - |
| Payments made on behalf of municipalities for debt | (35,996) | (1,803) |
| Net cash used in capital and related financing activities | \$ (103,430) | \$ (1,803) |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | \$ 270,000 | \$ 98,938 |
| Purchase of investments | (330,191) | (106,396) |
| Investment income | 30,383 | 70,072 |
| Net cash provided by (used in) investing activities | \$ (29,808) | \$ 62,614 |
| Net (decrease) in cash and cash equivalents | \$ (7,110) | \$ (76,844) |
| Cash and cash equivalents, beginning of year | 16,300 | 93,144 |
| Cash and cash equivalents, end of year | \$ 9,190 | \$ 16,300 |
| Reconciliation of operating income to Net Cash from operating activities | | |
| Operating loss | \$ (14,243) | \$ (318,837) |
| Depreciation | 156,446 | 158,223 |
| Adjustments to reconcile operating income to net cash from operating activities--Changes in assets and liabilities: | | |
| Increase in accounts receivable | (169) | (36,742) |
| Decrease in accounts payable | (17,606) | 58,001 |
| Decrease in prepaid rent | 1,700 | 1,700 |
| Net cash provided by (used in) operating activities | \$ 126,128 | \$ (137,655) |

There were no non-cash transactions during the years ended December 31, 2006 or 2005.

The accompanying notes are an integral part of these financial statements.

NOTE 1. NATURE OF ENTITY

The Cassopolis Area Utilities Authority (the "Authority") was formed through an intergovernmental agreement with the Village of Cassopolis, and the Townships in Cass County Michigan of Calvin, Jefferson, LaGrange, and Penn and was created pursuant to Act 233, Michigan Public Acts of 1955. It is allowed to acquire, construct, purchase, finance, own, improve, enlarge, operate, maintain, administer, and manage a sewage disposal system, a solid waste management system, and/or water supply system. The Authority currently operates a sewage transportation system for these municipalities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The component unit is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies.

Basis of Accounting

In accordance with Governmental Accounting Standards Board ("GASB") No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncement conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority applies only applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing, including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all investments purchased with an original maturity of three (3) months or less to be cash equivalents.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

Investments

Investments are stated at fair value, based on quoted market prices, and consist principally of governmental securities. Investment income is composed of interest and net change in the fair value of applicable investments.

Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------|------------------------|
| Equipment | 7 – 10 Years |
| System Improvements | 15 – 40 Years |
| Office equipment | 5 – 10 Years |

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**Operating Revenues and Expenses**

Operating revenues and expenses are those that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, permits, and tap-in fees. All other revenues and expenses are reported as nonoperating.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Information**

An annual budget was not adopted. Business-type activities are not required by generally accepted accounting principles in the United States of America to adopt a budget.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority follows GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rate within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

NOTE 4. DEPOSITS AND INVESTMENTS, CONCLUDED

The Authority has designated one bank for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$0 of bank deposits (checking) that were uninsured and uncollateralized. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the average maturities of investments are as follows:

| <u>Investment</u> | Fair Market <u>Value</u> | Weighted Average <u>Maturity</u> |
|------------------------------|--------------------------------|--|
| U.S. Treasury Note | \$ 100,555 | 2/15/2008 |
| U.S. Treasury Note | 169,781 | 11/15/2008 |
| U.S. Treasury Note | 194,414 | 9/15/2010 |
| U.S. Treasury Note | 67,949 | 8/15/2014 |
| Federal Home Loan Bank Bonds | 150,845 | 1/12/2009 |

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year-end, the credit quality rating of debt securities (other than the U.S. Government) and other investments is as follows:

| <u>Investment</u> | Fair Market <u>Value</u> | Rating | Organization Rating <u>Maturity</u> |
|----------------------------------|-----------------------------|--------|--|
| Fifth Third-Bank Investment Pool | \$ 146,666 | AAA | Standard & Poor's |
| U.S. Treasury Note | 100,555 | AAA | Standard & Poor's |
| U.S. Treasury Note | 169,781 | AAA | Standard & Poor's |
| U.S. Treasury Note | 194,414 | AAA | Standard & Poor's |
| U.S. Treasury Note | 67,949 | AAA | Standard & Poor's |
| Federal Home Loan Bank Bonds | 150,845 | AAA | Standard & Poor's |
| | <u>\$ 830,210</u> | | |

NOTE 5. RESTRICTED ASSETS

The Authority's four owner townships (Penn, LaGrange, Jefferson, and Calvin), in 1990 formed a special assessment district to provide the wastewater sewer system for Diamond Lake. In order to pay for the construction costs, Cass County issued limited tax general obligation bonds, both Series A (\$5,500,000) and B (\$250,000), and are payable solely from certain contractual payments from the contracting municipalities to the County. The contracting municipalities have pledged their limited tax, full faith, and credit for the payment of their respective portion.

The Authority has no obligation for repayment of these outstanding bonds, but has recognized the amount payable each year as both a restricted contract receivable and payable, and has approved to make money available for debt reduction on behalf of the contracting municipalities if they can not meet their respective obligations. The Authority has made debt payments of \$3,081 and \$1,803 for 2006 and 2005, respectively.

The amount of bonds outstanding is as follows, which is the amount of the Authority's contract receivable and payable:

| <u>Years Ended</u> | <u>Series A Bonds Principal</u> |
|--------------------|---------------------------------|
| 2007 | 275,000 |
| 2008 | 275,000 |
| 2009 | 275,000 |
| 2010 | 275,000 |
| | <u>\$ 1,100,000</u> |

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

| | <u>1/1/06</u> | <u>Additions</u> | <u>Disposals</u> | <u>12/31/2006</u> |
|--|---------------------|-------------------|------------------|---------------------|
| Capital assets being depreciated: | | | | |
| Sewer system and improvements | \$ 5,973,386 | \$ 67,434 | \$ - | \$ 6,040,820 |
| Office equipment | 14,775 | - | - | 14,775 |
| Other equipment | 55,120 | - | - | 55,120 |
| Subtotal | <u>\$ 6,043,281</u> | <u>\$ 67,434</u> | <u>\$ -</u> | <u>\$ 6,110,715</u> |
| Less: Accumulated depreciation | <u>(2,138,277)</u> | <u>\$ 156,446</u> | <u>\$ -</u> | <u>(2,294,723)</u> |
| Net total capital assets | <u>\$ 3,905,004</u> | | | <u>\$ 3,815,992</u> |

NOTE 7. OPERATING LEASE

The Authority leases building space from the Village of Cassopolis under a twenty year agreement which began February 17, 1992 and expires February 17, 2012. The Authority paid the total amount of the lease at the time of signing in the amount of \$34,000 and the prepaid rent is being expensed at \$1,700/year. The Authority is also responsible for a one-third shared cost of utilities at the building.

NOTE 8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9. CONTINGENCY

The Authority is required to reimburse the Village of Cassopolis (the "Village") for the cost of their operation and maintenance of the sewer transportation system. The Village operates on a fiscal year ending in February. At this time, the Village has not completed its 2007 audit, and any reconciling amounts owed to the Village by the Authority (or due to the Authority from the Village) cannot be reasonably determined or estimated at this time.